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2005

Montana Board of Housing

*Phillip Moffitt*

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## *Mission*

*Partners for Attainable Housing*

### *We Reach Our Mission*

By issuing tax-exempt bonds, administering federal housing programs and working in partnership with many other housing providers throughout Montana.

### *Culture Statement*

We deliver affordable housing by:

- Listening to ideas
- Exploring options, and
- Embracing change

Through respect, trust and teamwork.

### *Our Partners*

#### Private Enterprise

##### FANNIE MAE

- Brokers sell bonds issued by the MBOH
- Lenders and realtors match homebuyers with MBOH financing
- Banks and real estate lenders originate loans for the MBOH
- Builders construct homes for Montanans with MBOH financing
- Developers and contractors build multifamily complexes

Nonprofit Housing Organizations that target special populations, provide homeownership training and assist with down payment and closing costs.

##### AWARE Inc.

- Bear Paw Development
- Elkhorn Affordable Housing Corp.
- Glacier Affordable Housing Foundation
- Habitat for Humanity
- homeWORD
- Human Resource Councils
- Montana Home Choice Coalition
- Montana HomeOwnership Network, Inc.
- Neighborhood Housing Services
- Western Montana Mental Health Center
- North Missoula Community Development Corp.

#### Governmental Entities

- Department of Veterans Affairs (VA)
- Federal Housing Administration (FHA)
- Internal Revenue Service (IRS) - provides authority for bond issuance and allocation of tax credits
- Montana cities (Billings, Bozeman, Bridger, Butte, Glendive, Great Falls, Havre, Helena, Kalispell, Laurel, Lewistown, Livingston, Miles City, Missoula, Ronan, Shelby, Terry)
- Montana counties (Lake, Missoula, Ravalli, Richland, Silver Bow)
- Montana public housing authorities
- Montana tribal housing organizations
- U.S. Department of Agriculture Rural Development (USDA/RD)
- U.S. Department of Housing and Urban Development (HUD)

### *Our Funding*

The Montana Board of Housing (MBOH) was created by the Montana Housing Act of 1975. It is an agency of the state and operates within the Department of Commerce for administrative purposes.

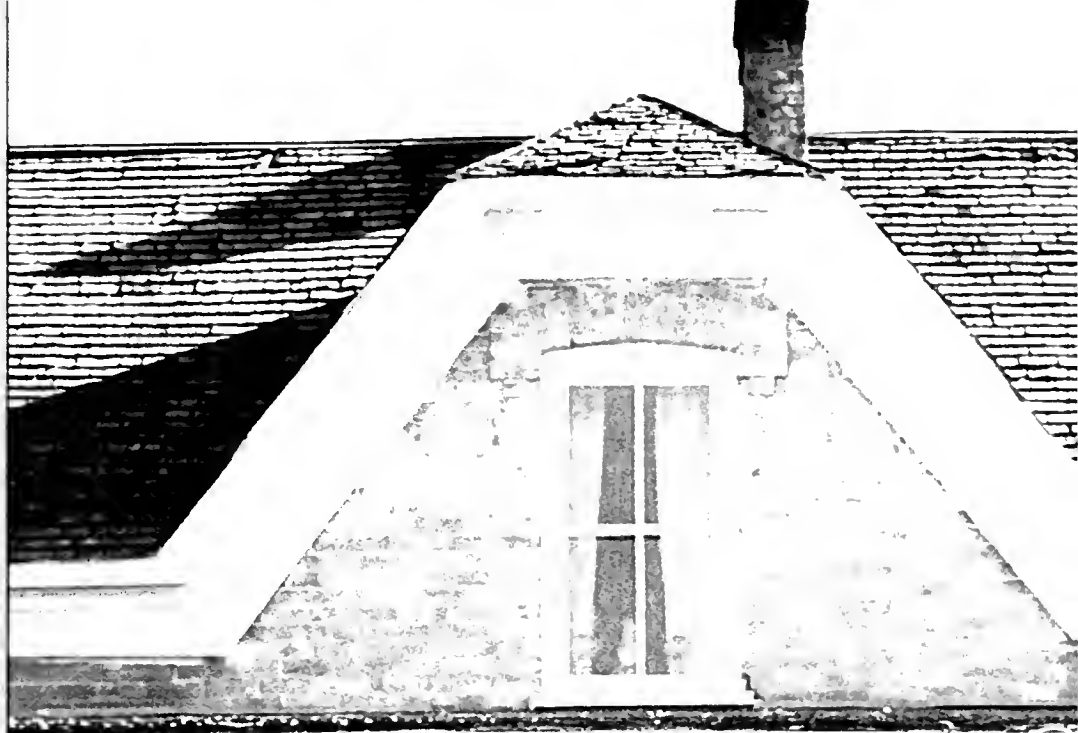
Under the Housing Act, the MBOH does not receive state or federal tax dollars or appropriations from the state's general fund. The MBOH is completely self-supporting. Substantially all of the funds for MBOH operations and programs are provided by the private sector through the sale of tax-exempt bonds.

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# *Message*

*from the Governor*

*D*ear Friends:

Safe and affordable housing is fundamental for a healthy life, a vibrant community and a robust economy.

The Montana Board of Housing (MBOH) has worked hard for nearly 30 years to provide low-cost, flexible mortgage financing for nearly 42,000 Montana families. First-time homebuyers, single parents, senior citizens and those with disabilities and special needs have all benefited from the housing programs provided by the MBOH.

Besides the psychological benefits of a place to call home, the MBOH housing programs have boosted the state's economy. In 2005, MBOH invested \$168 million in housing for over 2,000 Montana families by financing home loans and allocating tax credits to developers. Their efforts in 2005 also created over 4,300 jobs for our citizens.

MBOH personnel are the first to confirm that their partnerships with private enterprise, nonprofit housing organizations and governmental entities make housing programs work so well. In 2005, these successful partnerships have helped leverage over \$240 million to benefit our great state.

I am proud to recognize the MBOH as a cornerstone of economic development for Montana, since access to affordable housing is a key issue considered by many businesses looking at expansion or relocation to Montana.

The MBOH's hard work over the last year has done exactly what the legislators envisioned decades ago. It created jobs, stabilized our families and enriched our communities. The MBOH has helped make Montana a great place to live, work and raise our children.

*Governor Brian Schweitzer*







# Message

*from the Chairman and Executive Director*

We are pleased to present the annual report and financial statements of the Montana Board of Housing (MBOH) for fiscal year 2005. This report has been redesigned for easier reading. Please refer to a compact disk on the inside back cover for audited financial statements and detailed data for each program.

The MBOH is an important resource for Montanans. It has helped create safe and affordable housing for nearly 42,000 families since its inception in 1975 - all without the use of state or federal tax dollars or state general fund money. Since 1975, the MBOH has allocated more than \$2.5 billion to finance homes that would otherwise not be built or be affordable. This is a profound record of accomplishment that has yielded benefits for the entire state.

When affordable housing is built, local communities thrive with safer, cleaner neighborhoods. Towns and cities prosper with increased real estate tax revenues and more employment. For example, in fiscal year 2005, the MBOH created nearly 4,300 jobs and generated total taxes of nearly \$23 million.

It is clear that our impact on cities, towns and the state of Montana is far-reaching. What is even more clear is the impact of our programs on the child who will now grow up in a safe and decent home, the elderly Montanan who can continue to live in a cherished family residence, and Montana's working families who can finally afford to buy their first homes.

The MBOH's support to first-time and low-income homebuyers has made possible, time and again, one of life's happiest moments - achieving the dream of homeownership. In fiscal year 2005, the MBOH invested nearly \$168 million in housing for 2,018 Montana families.

As a result of our constant search for new ideas to benefit Montana's affordable housing community, this year we teamed with the Anaconda Job Corps to produce a series of homes called The Montana House™. We were pleased with this partnership and the opportunity to bring more affordable housing to Montana's families. *(A complete story can be found on page 15 of this report.)* We also teamed with Farmers State Bank in the Bitterroot Valley to bring homeownership to teachers, who now can afford to live in the communities where they teach.

Our statewide partnerships with public, private and nonprofit groups have been instrumental to our success. Our partners share our strong commitment to affordable housing and create excellent public access to our housing programs. Together, we have provided affordable housing to every city, town and county in Montana.

Thank you for the opportunity to be of service in 2005. We look forward to a successful 2006.

*Chairman Bob Thomas  
Executive Director Bruce Brensdal*





Bob Thomas  
Chairman



Bruce Brensdal  
Executive Director





# Board of Directors

The seven-member board of directors is appointed by the governor and subject to confirmation by the state Senate. The terms of the majority of the board members coincide with the four-year term of the governor. The remaining board members serve four-year terms that expire in the middle of the governor's term.

The board members elect officers. Each board member serves until a successor is appointed and confirmed by the state Senate.

The board of directors provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Montana Board of Housing programs. The commitment of time and energy by board members has resulted in an improved quality of life for thousands of Montana citizens. The leadership of the board is vital to the MBOH's ability to meet Montana's housing needs.

In fiscal year 2005, the board provided over \$167 million in mortgage financing to help 2,001 families obtain the dream of homeownership. The board also allocated \$2.125 million in low income housing tax credits, which generated \$25 million in project dollars for 221 units of rental housing.

**Chairman Bob Thomas** is a retired insurance agency owner from Stevensville, Montana, and a graduate of the University of Montana. Chairman Thomas currently works with the Childhood Language Disorder Clinic at the University of Montana. He was appointed to the board in 1991 and served as its chairman since 1993.

**Vice Chairman Judy Glendenning** has worked as a realtor since 1978. She currently works as a broker with Century 21 Heritage Realty in Helena. Ms. Glendenning, a Montana native, is active on local and state realtor boards. Ms. Glendenning has served on the board since 2003.

**Secretary J.P. Crowley** graduated from Montana State University and manages 41 apartment units in Helena. He serves on several nonprofit boards and formerly worked for U.S. Senator Max Baucus. He is married and is a stay-at-home dad to his two, young children. Mr. Crowley is new to the board in 2005.

**Audrey Black Eagle** is the executive director of the Apsaalooke Nation Housing Authority in Lodge Grass and has been actively involved in housing for 11 years. Ms. Black Eagle is married to Cedric Black Eagle, the Tribal Vice Chairman. She is new to the board in 2005.

**Susan Moyer** is the community development director for the city of Kalispell. She has spent her 26-year career with the city addressing affordable and adequate housing issues through renovation or new construction projects. Ms. Moyer has served on the board since 2003.

**Jeff Rupp** is the CEO/President of the Human Resource Development Council of District IX in Bozeman. He is a Montana native who has devoted over 25 years of his career to improving the lives of Montana families through community and economic development and social service programs. Mr. Rupp is new to the board in 2005.

**Elizabeth (Betsy) Scanlin** is a Red Lodge attorney and city councilwoman. She is active in historic preservation, performance and fine arts, and local, state and national politics. Ms. Scanlin has worked on local and state growth and housing issues for over a decade. Ms. Scanlin is new to the board in 2005.

## Board Members

Standing (left to right)

Susan Moyer

Pat Melby, General Counsel

J.P. Crowley

Elizabeth Scanlin

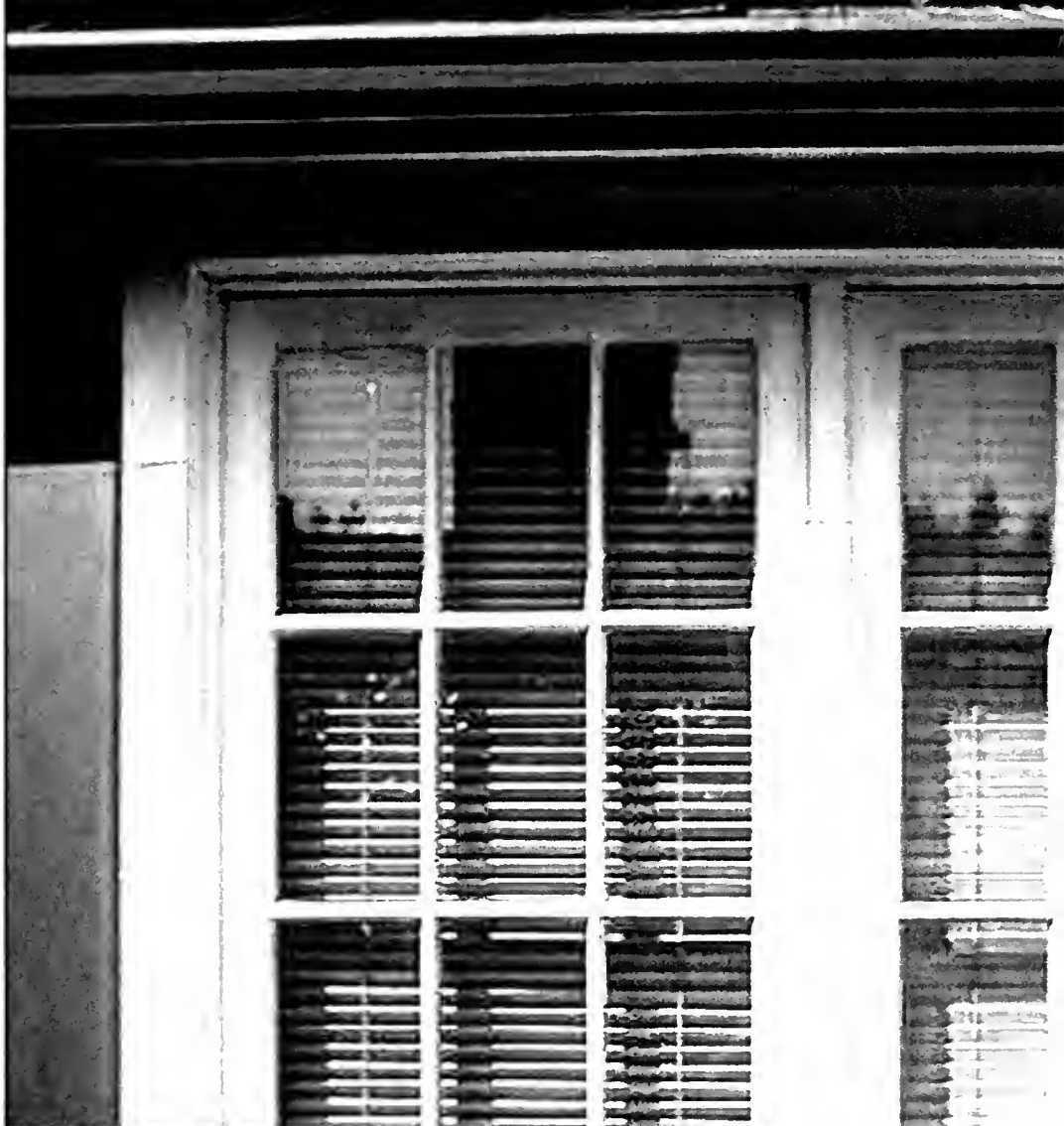
Jeff Rupp

Seated (left to right)

Judy Glendenning

Bob Thomas

Bruce Brensdal, Executive Dir.





# Staff

## **Executive**

*(Left to right)*

Diana Hall  
Bruce Brensdal  
Jeannie Huntley

## **Homeownership Program**

*(Back)*

Charles Brown  
Sandi Conrady  
Jeannene Maas  
Doug Jensen

*(Front)*

Nancy Leifer  
Kellie Lynch

## **Multifamily Program**

*(Back)*

Mary Bair  
Justin Schedel  
Penny Cope

*(Front)*

Mathew Rude  
Gerald Watne

## **Accounting**

*(Back)*

Joice Franzen  
Chuck Nemec  
Vicki Bauer

*(Front)*

Becky Johnson  
Chris Bullman

## *Executive*



## *Homeownership Program*



*Multifamily Program*



*Accounting*





# *Legal & Professional Services*

## Board General Counsel

Luxan and Murfitt  
*Helena, Montana*

## Independent Auditor

Legislative Audit Division  
*Helena, Montana*

## Board Bond Counsel

Kutak Rock  
*Omaha, Nebraska*

## Investment Banking Team

UBS Financial Services Inc.  
*San Francisco, California*

D. A. Davidson & Co.  
*Great Falls, Montana*

Merrill Lynch & Co.  
*New York, New York*

RBC Dain Rauscher, Inc.  
*Minneapolis, Minnesota*

Piper Jaffray & Co.  
*Minneapolis, Minnesota*

## Trustees

U.S. Bank  
Wells Fargo Bank



(Left to right)  
John Wagner, Bond Counsel  
Pat Melby, General Counsel  
Peter Nolden, Senior Underwriter  
Sandy Shupe, Trustee

*Board Finance Team*







## *The Montana House™*

*Featured at Smithsonian Festival in D.C.*

Visitors to the 39th annual Smithsonian Folklife Festival (Festival) in Washington, D.C., were surprised to find a large picture of The Montana House™, a series of 960-square-foot homes built for Montana families by construction students at the Anaconda Job Corps (Job Corps).

The Job Corps is overseen by the USDA Forest Service, which was honored for its 100th anniversary at the Festival.

With about one million visitors each year, the Festival took place on the National Mall in June and July of 2005.

According to Governor Brian Schweitzer, The Montana House™ is the perfect starter home for many Montana families unable to buy in today's market.

"The Montana House™ makes the dream of homeownership available to all Montanans," Schweitzer said. "I am impressed with the quality of workmanship and the collaborative effort that gives hard-working Montana families homes of their own."

The program that creates The Montana Houses™ is a collaboration between the Montana Board of Housing (MBOH), the Job Corps, the United Brotherhood of Carpenters and Joiners of America, and the Painters & Allied Trades International Union.

### How It Works

The MBOH provides funding for building materials for the homes. The students in the Pre-Apprenticeship Carpentry Training Program at the Job Corps build the homes under guidance of union carpenters and painters. Once the students complete the training program, they are automatically apprenticed into the carpenters' union.

### How Much Does It Cost

Each Montana House™ sells for \$35,000. The homebuyer provides the appliances, floor coverings, utilities, foundation, land and moving expenses.

Completing a homebuyer education class, pre-qualification by a bank or lending institution, and household incomes not exceeding 80% of area median income are prerequisites to owning one of the homes.

"The Montana House™ program was created as a way to provide reasonably sized, energy efficient, affordable homes to Montana's low- and moderate-income families," said MBOH Board Chairman Bob Thomas. "It's an added bonus that this public-private partnership helps the Job Corps students build skills to enrich their lives."





# *Homeownership Program*

(formerly the Single-Family Revenue Bond Program)

*Affordable Mortgages for Montana's Homebuyers*

The Montana Homeownership Program had a banner year in fiscal year 2005. Propelled by lower interest rates, the program helped 1,763 Montana families realize the dream of homeownership by providing \$164 million in financing. The number of families served and the amount of financing provided was the largest in the history of the program. Since 1977, the Montana Homeownership Program has helped almost 38,000 Montana families become homeowners.

The home financing program is exclusively supported from the sale of tax-exempt mortgage revenue bonds issued periodically by the board. The tax-exempt status allows the agency to pass on the interest savings to lower income Montana families in the form of low-interest home loans.

Homeownership Programs at the Montana Board of Housing include:

- The Bond Program, which provides below market, low or no down payment, fixed rate mortgages to qualified first-time homebuyers.
- The Mortgage Credit Certificate Program, which helps qualified first-time homebuyers reduce their federal income taxes. In fiscal year 2005, 18 families were able to obtain homeownership with \$2.2 million in financing from this program.
- Several Set-aside Programs, which help Montana families who can't qualify for loans through the Bond Program. In fiscal year 2005, 388 families in 57 communities benefited from \$35.8 million in home financing through these programs. Since 1986, 3,948 families have achieved homeownership with \$205 million in set-aside/recycled funds from these programs.

*More detailed information about the Mortgage Credit Certificate Program and the MBOH Set-aside Programs can be found on the attached disk.*





# *Multifamily Program*

## *Creative Financing Options for Developers of Affordable Housing*

The Multifamily Program provides several financing options to help sponsors and developers produce affordable housing for Montana residents.

### *Low Income Housing Tax Credits*

Low Income Housing Tax Credits provide for the retention, rehabilitation and construction of low-income rental housing. Through tax credits, which are administered by the Multifamily Program, developers and owners of qualified housing projects receive an annual federal tax credit for 10 years. The eligible costs associated with building the projects for low-income Montana families determine the tax credit allocations.

Since the inception of the program in 1987, tax credits have been used in the rehabilitation and production of 4,608 low-income housing units in 163 separate Montana projects. The total construction costs of the 163 projects were nearly \$304 million.

In fiscal year 2005, \$2.125 million in tax credits were allocated to assist in the development of six projects containing 221 low-income housing units. Total development costs of the projects are projected to be over \$25 million.

### *Revolving Loan Account*

The Revolving Loan Account (RLA) was created by the Legislature to provide funding for projects that typically need that last, small piece of financing to make them feasible. A component of the RLA, the Temporary Assistance to Needy Families Program, served 17 families in six Montana communities by providing \$169,128 in financing to buy homes in 2005.

## *Other Multifamily Programs*

### *General Obligation Loan Program*

The General Obligation (GO) Loan Program is a source of permanent mortgage financing for affordable rental housing that is identical to the Risk Share Loan Program (RSL) mentioned below with one exception, there is no mortgage insurance requirement. GO loans are typically available to smaller, multifamily projects that receive multiple sources of funding through other programs.

### *Risk Share Loan Program*

Under this program, the U. S. Department of Housing and Urban Development (HUD) provides mortgage insurance for multifamily housing projects that have loans underwritten, processed and funded by the MBOH. HUD and the MBOH share the risk of the mortgage.

### *Elderly Assistance Program*

#### *Reverse Annuity Loan Program (RAM)*

The Elderly Assistance Program offers reverse annuity mortgages (RAMs) to eligible senior Montanans. The RAMs, which are 10-years loans, let the eligible seniors convert the equity in their homes into cash - all while retaining homeownership.

RAMs work much like traditional mortgages, only in reverse. Rather than making a payment to a lender each month, the lender (MBOH in this case) pays the eligible participant. Unlike conventional home equity loans, a RAM from the MBOH does not require any repayment of principal or interest for as long as the participant lives in the home.

*More detailed information about the Multifamily Program can be found on the attached disk.*







## *Accounting and Reporting*

The accounting and reporting personnel at the Montana Board of Housing manage approximately 9,825 mortgages totaling over \$663 million. This includes reconciling all mortgages on a monthly basis from reports received from 40 contracted loan servicers.

In fiscal year 2005, the staff also accounted for \$135 million in mortgage loan collections. The staff accounts for principal and interest on bonds payable for approximately \$766 million in 24 bond issues. In addition, the staff processed \$82 million in bond calls and maturities and accounted for investment purchases of approximately \$1 billion and maturities and sales of approximately \$928 million.







MONTANA BOARD OF HOUSING: A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF NET ASSETS AS OF JUNE 30, 2005 AND 2004

ASSETS	FY 2005	FY 2004
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 5,771,588	\$ 7,264,131
Investments	119,525,558	46,340,278
Mortgage Loans Receivable	11,957,430	10,584,633
Interest Receivable	4,519,714	4,075,113
Due from Primary Government	5,237	1,073
Due from Other Governments	32,639	
Prepaid Expense	208,810	181,418
Total Current Assets	\$ 142,020,976	\$ 68,446,646
<b>Noncurrent Assets</b>		
Investments	\$ 96,821,850	\$ 94,134,509
Mortgage Loans Receivable	662,372,983	598,746,710
Deferred Bond Issuance Costs, Net	7,435,350	6,284,313
Capital Assets, Net	80,881	75,617
Total Noncurrent Assets	\$ 766,711,064	\$ 699,241,149
<b>TOTAL ASSETS</b>	<b>\$ 908,732,040</b>	<b>\$ 767,687,795</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 461,019	\$ 335,522
Due to Primary Government	25,114	26,777
Due to Other Component Unit	150	4,873
Due to Other Government	32,639	
Property Held in Trust	3,255	683,005
Accrued Interest - Bonds Payable	3,656,257	3,003,280
Bonds Payable, Net	9,855,000	7,781,560
Arbitrage Rebate Payable to U.S. Treasury Department	443,233	47,955
Accrued Compensated Absences	69,004	53,702
Total Current Liabilities	\$ 14,545,671	\$ 11,936,674
<b>Noncurrent Liabilities</b>		
Bonds Payable, Net	\$ 756,724,488	\$ 624,673,559
Deferred Refunding Costs	(1,365,779)	(1,500,335)
Arbitrage Rebate Payable to U.S. Treasury Department	818,850	975,054
Accrued Compensated Absences	48,450	48,820
Total Noncurrent Liabilities	\$ 756,226,009	\$ 624,197,098
<b>TOTAL LIABILITIES</b>	<b>\$ 770,771,680</b>	<b>\$ 636,133,772</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net	\$ 80,880	\$ 75,617
Restricted for Bondholders:		
Unrealized (losses) gains on investments	4,564,519	1,574,795
Single Family Programs	85,678,849	79,865,024
Various Recycled Mortgage Programs	33,440,493	37,136,710
Multifamily Programs	8,710,759	8,415,832
Multifamily Project Commitments	225,441	235,011
Reverse Annuity Mortgage Program	2,634,845	1,830,631
Restricted for Affordable Revolving Loan Program	2,624,574	2,420,403
<b>TOTAL NET ASSETS</b>	<b>\$ 137,960,360</b>	<b>\$ 131,554,023</b>

These condensed financial statements are based on audited financial statements. Complete audit reports are available in the accompanying disk, at our Web site at [www.housing.mt.gov](http://www.housing.mt.gov) or upon request.



MONTANA BOARD OF HOUSING: A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED  
JUNE 30, 2005 AND 2004

		FY 2005		FY 2004
Interest Income - Mortgage Loans	\$	37,146,816	\$	36,103,048
Interest Income - Investments		8,061,488		8,415,136
Fee Income		219,119		214,712
Federal Financial Assistance		403,825		251,451
Net Increase (Decrease) in Fair Value of Investments		2,906,138		(2,230,748)
Grants and Contributions		117,539		265,625
Other Income		10,777		313
Total Operating Revenues	\$	48,865,702	\$	43,019,537

OPERATING EXPENSES

Interest on Bonds	\$	36,298,463	\$	34,848,147
Servicer Fees		2,376,194		2,157,072
Contracted Services		575,740		616,917
Amortization of Bond Issuance Costs		553,586		508,279
General and Administrative		1,552,373		1,323,782
Arbitrage Rebate Expense		282,233		303,526
Grants/Subcontracts		117,539		-
Loss on Redemption		703,237		1,237,630
Total Operating Expenses	\$	42,459,365	\$	40,995,353
Operating Income (Loss) Before Transfers		6,406,337		2,024,184
Operating Transfers In(Out)		-		-
Increase (Decrease) in Net Assets		6,406,337		2,024,184
Net Assets, Beginning of Year		131,554,023		129,529,839
Net Assets, End of Year	\$	137,960,360	\$	131,554,023

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## *Disk Contents*

1. Homeownership Program
  - a. Bond Loans Purchased by County
  - b. Homebuyer Eligibility Guidelines
  - c. Homeownership Loan Activity in FY 2005
  - d. Mortgage Credit Certificate Program
  - e. Set-aside Disbursements in FY 2005
  
2. Multifamily Program
  - a. Affordable Housing Revolving Loan Fund
  - b. Projects Financed under Section 8 New Construction Program and Other HUD Programs for Multifamily Housing
  - c. Pilot Program for Multifamily Rental Housing
  - d. Risk Sharing Program for Multifamily Housing
  - e. G.O. Program for Multifamily Housing
  - f. Low Income Housing Tax Credit Program for 2005
  - g. Elderly Assistance Program (Reverse Annuity Mortgages)
  - h. Projects Financed under the Elderly Assistance Program (Reverse Annuity Mortgages)
  
3. Montana Board of Housing Financial Report -- June 30, 2005

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ANNUAL REPORT - ELECTRONIC VERSION

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Further information on our programs  
may be obtained by writing:

Montana Board of Housing  
Department of Commerce  
301 South Park Avenue, Room 240  
P.O. Box 200528  
Helena, Montana 59620-0528  
or by telephone (406) 841-2840

<http://housing.mt.gov>

We make every effort to ensure our documents are fully  
accessible to persons with disabilities. Alternative accessible  
formats of this documents will be provided upon request.  
Please contact the Montana Department of Commerce at  
(406) 841-2840 or TDD (406) 841-2702.

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